Supreme Court, U.S.
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No. _____

In the
Supreme Court of the United States
October Term, 1994

NLFC, Inc.,

Petitioner,

vs.

Devcom Mid-America, Inc.,

Respondent.

Petition for Writ of Certiorari
to the United States Court of Appeals
for the Seventh Circuit

Petition for Writ of Certiorari

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QUESTIONS PRESENTED

This case arises from NLFC's claim against Devcom for copyright infringement. NLFC contends that Devcom infringed the copyright in a computer software program NLFC owned. Devcom printed on its own computers the source code of that NLFC software. The district court granted a summary judgment in favor of Devcom, and the court of appeals affirmed, holding that Devcom's action did not constitute "copying" under the Copyright Act.

1. Did the court of appeals err in affirming the district court's summary judgment ruling that a party's printing of a physical copy of the source code of a computer software program does not constitute "copying" that would support a claim of copyright infringement?

2. Did the court of appeals err in construing a local rule of the Northern District of Illinois in such a way as to obviate the standards of rule 56 of the Federal Rules of Civil Procedure, thereby improperly allowing a party to obtain a summary judgment essentially by default?

LIST OF PARTIES

The following is a list of all parties to the proceeding in the United States Court of Appeals for the Seventh Circuit, whose judgment is sought to be reviewed:

Petitioner: NLFC, Inc.

Respondent: Devcom Mid-America, Inc.

Neither party has parent companies or subsidiaries within the meaning of Supreme Court Rule 29.1.

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TO THE UNITED STATES SUPREME COURT:

Pursuant to 28 U.S.C. § 1254, NLFC, Inc., asks this Court to issue a writ of certiorari to review the opinion issued on January 19, 1995 by the United States Court of Appeals for the Seventh Circuit.

OPINIONS AND JUDGMENTS BELOW

Petitioner has reproduced in a separate appendix the opinions issued by the courts below, as follows:

NLFC, Inc. v. Devcom Mid-America, Inc., 45 F.3d 231 (7th Cir. 1995) (court of appeals' decision)

NLFC, Inc. v. Devcom Mid-America, Inc., No. 93 C 0609 (N.D. Ill. Feb. 3, 1994) (district court's judgment)

NLFC, Inc. v. Devcom Mid-America, Inc., No. 93 C 0609 (N.D. Ill. Jan. 4, 1994) (district court's order)

NLFC, Inc. v. Devcom Mid-America, Inc., No. 93 C 0609 (N.D. Ill. Nov. 16, 1993) (magistrate's recommendation)

JURISDICTION

The court of appeals issued its opinion January 19, 1995. Pursuant to 28 U.S.C. § 1254(1) (West 1993), this Court has jurisdiction to review the decision of the court of appeals.

STATUTES INVOLVED

17 U.S.C.A. § 101 (West Supp. 1995):

. . . .

"Copies" are material objects, other than phonorecords, in which a work is fixed by any method now know or later developed, and from which the work can be perceived, re-produced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.

. . . .

17 U.S.C.A. § 106(1) (West 1977 & Supp. 1995):

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

> (1) to reproduce the copyrighted work in copies or phonorecords; . . .

17 U.S.C.A. § 501(a) (West Supp. 1995):

Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be. . . .

Fed. R. Civ. P. 56(c):

(c) Motion and Proceedings Thereon. The motion shall be served at least 10 days before the time fixed for the hearing. The adverse party prior to the day of hearing may serve opposing affidavits. The judgment sought shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law. A summary judgment, interlocutory in character, may be rendered on the issue of liability alone although there is a genuine issue as to the amount of damages.

Fed. R. Civ. P. 83:

Each district court by action of a majority of the judges thereof may from time to time, after giving appropriate public notice and an opportunity to comment, make and amend rules governing its practice not inconsistent with these rules. A local rule so adopted shall take effect upon the date specified by the district court and shall remain in effect unless amended by the district court or abrogated by the judicial council of the circuit in which the district is located. Copies of rules and amendments so made by any district court shall upon their promulgation be furnished to the judicial council and the Administrative Office of the United States Courts and be made available to the public. In all cases not provided for by rule, the district judges and magistrates may regulate their practice in any manner not inconsistent with these rules or those of the district in which they act.

Northern District of Illinois Local Rule 12(M), (N):

M. Motions for summary judgment; moving party. With each motion for summary judgment filed pursuant to F.R.Civ.P. 56 the moving party shall serve and file —

> (1) any affidavits and other materials referred to in F.R.Civ.P. 56(e);
>
> (2) a supporting memorandum of law;
>
> (3) a statement of material facts as to which the moving party contends there is no genuine issue and that entitle the moving party to a judgment as a matter of law, and that also includes:
>
> > (a) a description of the parties, and
> >
> > (b) all facts supporting venue and jurisdiction in this court.

The statement referred to in (3) shall consist of short numbered paragraphs, including within each paragraph specific references to the affidavits, parts of the record, and other supporting materials relied upon to support the facts set forth in that paragraph. Failure to submit such a statement constitutes grounds for denial of the motion.

If additional material facts are submitted by the opposing party pursuant to section N of this rule, the moving party may submit a concise reply in the form prescribed in section N for a response. All material facts set forth in the statement filed pursuant to section N(3)(b) will be deemed admitted unless controverted by the statement of the moving party.

N. Motions for summary judgment; opposing party. Each party opposing a motion filed pursuant to F.R.Civ.P. 56 shall serve and file—

(1) any opposing affidavits and other materials referred to in F.R.Civ.P.56(e);

(2) a supporting memorandum of law; and

(3) a concise response to the movant's statement that shall contain:

(a) a response to each numbered paragraph in the moving party's statement, including, in the case of any disagreement, specific references to the affidavits, parts of the record, and other supporting materials relied upon, and

(b) a statement consisting of short numbered paragraphs, of any additional facts that require the denial of summary judgment, including references to the affidavits, parts of the record, and other supporting materials relied upon. All material facts set forth in the statement required of the moving party will be deemed to be admitted unless controverted by the statement of the opposing party.

STATEMENT OF THE CASE

NLFC designs, develops, and maintains computer software for use in medical pathology laboratories. NLFC owns a valid copyright in the software at issue, having obtained the copyright in that software from its original designer, Lab Force.

Cabrini Medical Center ("Cabrini") in New York and Franciscan Shared Laboratory ("FSL") in Wisconsin were both licensed users of NLFC's copyrighted software. Cabrini's license agreement strictly prohibited Cabrini from copying the software and from providing copies to third parties such as Devcom. In 1989, FSL entered into a similar license agreement which also prohibited unauthorized copying.

Cabrini and FSL had separately hired Devcom as a computer consulting company. They asked Devcom to modify the NLFC software. Devcom thereby obtained access to the NLFC software licensed to Cabrini and FSL. Devcom then exploited its access to NLFC software by printing at its Chicago offices a physical print-out containing a "viewable print-out" of the NLFC software source code.

NLFC filed suit against Devcom alleging copyright infringement and related state law claims. The district court thus had jurisdiction of NLFC's claim of copyright infringement pursuant to 28 U.S.C. §§ 1331, 1338(a) (West 1995). The court could exercise supplemental jurisdiction over the state law claims. 28 U.S.C. § 1367 (West 1995).

Devcom filed a summary judgment motion as to all the claims. In response, NLFC filed deposition excerpts and

other evidence, as well as its brief opposing Devcom's motion. Devcom's motion contained a list of the facts it claimed were not in dispute, pursuant to Rule 12(M) of the court's local rules. NLFC's response similarly contained a list of the facts it claimed were in dispute, pursuant to rule 12(N) of the court's local rules.

The court referred the matter to a magistrate, who eventually filed a memorandum which recommended that the district court should grant summary judgment because (1) Devcom's creation of a "viewable print-out" allegedly for modification purposes did not constitute infringement of copyright, and (2) NLFC's licensing agreements with Cabrini and FSL permitted third parties such as Devcom to make copies of the NLFC software.

The district court, over NLFC's objection, entered an order accepting the recommendations and adopting the magistrate's reasoning. The court entered final judgment, and NLFC filed its notice of appeal to the United States Court of Appeals for the Seventh Circuit.[1] The court of appeals affirmed the district court's decision, concluding that Devcom's actions did not constitute "copying" under the Copyright Act. The court also affirmed the district court's ruling on NLFC's claim that Devcom improperly tried to market NLFC's software without permission.

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[1] Upon granting summary judgment against NLFC on its copyright claim, the court dismissed NLFC's state law claims, exercising its discretion to dismiss these claims on the grounds that the amount in controversy was insufficient to vest the court with diversity jurisdiction and the court no longer had supplemental jurisdiction over those claims.

ARGUMENT

In its published opinion, the court of appeals has affirmed a district court's decision that the unauthorized printing of a hard copy print-out of the source code of a computer software program does not constitute copyright infringement if the printing is done by telephone. This is a novel interpretation of the law of copyright infringement in the context of computer software. Because of the broad implications of the court's decision in the realm of software copyright protection, this Court should act to correct the court of appeals' misapplication of the Copyright Act.

A. The standard for summary judgment.

This Court reviews de novo an order that grants a summary judgment. *See, e.g., Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 249-52 (1986). Summary judgment is proper only if the moving party demonstrates that there exists no genuine issue of any material fact and that the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c); *Anderson*, 477 U.S. at 247. The moving party bears the initial burden to demonstrate that no genuine issue of material fact exists. *Celotex Corp. v. Catrett*, 477 U.S. 317, 324 (1986). All facts must be construed in the light most favorable to the party opposing the motion, and the court must draw inferences in favor of that party. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587-88 (1956). Any doubt as to the existence of a genuine issue for trial must be resolved against the party requesting summary judgment. *Anderson*, 477 U.S. at 255.

B. The court of appeals improperly concluded that Devcom's actions were not "copying."

Computer programs take two forms: both human-readable "source code," and machine-readable "object code." *Midway Mfg. Co. v. Strohon*, 564 F. Supp. 741, 750 (N.D. Ill. 1983). The mere copying of computer software from disk into memory has been held as an infringement, let alone making a printed copy. *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994); *ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F. Supp. 1310, 1332 (N.D. Ill. 1990).

In the district court, Devcom did not dispute that a company called Lab Force had developed the software at issue and that NLFC had obtained from Lab Force the copyright in that software. NLFC, as the owner of the copyright, thus had the exclusive right to make copies of the software. *See* 17 U.S.C.A. § 106 (West 1977 & Supp. 1995). Thus, Devcom could prevail on summary judgment either by proving that it had not copied NLFC's software or by showing that NLFC would not be able to prove that Devcom had copied the software.

NLFC's summary judgment proof created an issue of fact regarding whether Devcom had copied the NLFC software by printing the source code at Devcom's Chicago office. Devcom submitted affidavits of Devcom personnel suggesting that it had not copied NLFC software, "except to create a viewable print-out necessarily required for modification purposes." In reply, NLFC offered deposition testimony of Jon Kristofferson, the director of Devcom's software development, which stated as follows:

Q: [Y]ou still have Exhibit No. 1 there in front of you, and am I wrong, isn't that a Lab Force program?
A: It says Lab Force.
Q: It also says Devcom. Does that mean it was printed out at Devcom's offices?
A: Yeah, I would say it was.
Q: Do you know where that particular program . . . came from?
A: No.
Q: Was it printed at Devcom's office?
A: Yes.

The district court had concluded that Devcom's evidence established that Devcom had not infringed a copyright in the NLFC software, and that the above evidence did not create an issue of fact regarding this "copying" issue.

The court of appeals agreed. The court reasoned that when Devcom printed the source code at its Chicago offices, it had not done so by downloading the NLFC software program into Devcom's own computer located in its Chicago offices. *NLFC*, 45 F.3d at 235. The court inferred that instead Devcom had used telephone lines between its Chicago office computer and Cabrini's New York computer, making a copy directly from Cabrini's own computer. The court concluded that "the only plausible inference favoring NLFC that can be drawn from the evidence produced by NLFC is that Devcom accessed the memory or hard drive of one of the laboratory computers directly through a dedicated phone line, and that the source codes were printed directly from that source. There is no support here for the inference that this information originated from one of Devcom's computers."

Based on the inference it drew from the evidence, the court of appeals should have concluded that Devcom "copied" the computer program within the meaning of the Copyright Act. In other words, Devcom's printing of the source code, without permission from NLFC, constituted infringement of copyright regardless of the exact means by which Devcom made the copy. In defining what actions constitute infringement, the Copyright Act does not make a distinction between unauthorized copying off one's own computer and unauthorized copying off of someone else's computer by means of telephone or some other electronic access. NLFC's summary judgment proof thus created an issue of fact as to whether Devcom had infringed NLFC's copyright.

The court of appeals endorsed the district court's conclusion that the Kristofferson testimony did not create an issue of fact because it failed to contradict Devcom's assertion that the only "copy" Devcom had made was the "print-out" for purposes of modifying the NLFC software. *NLFC*, 45 F.3d at 235 n.5. The court's reasoning misses the point. Whether or not the print-out was made for the purpose of modification, it was still unauthorized copying of NLFC's software, which was an infringement of NLFC's copyright. Thus, the court of appeals' decision was simply wrong under the Copyright Act.

C. NLFC's license agreements with Cabrini and FSL did not allow Devcom to copy the NLFC software.

The court of appeals also concluded that NLFC had failed to show that Devcom's actions were inconsistent with the terms of the Cabrini and FSL license agreements. The question was whether Devcom could claim that those licenses authorized Devcom's copying. Devcom admits it

modified and enhanced the NLFC software in Cabrini's and FSL's possession. This conduct is expressly included in the definition of preparation of a derivative work, and, therefore, constitutes a violation of the Copyright Act unless NLFC authorized it. *See* 17 U.S.C.A. §§ 101, 106 (West 1977 & Supp. 1994).

Both Cabrini's license and FSL's license prohibited Cabrini and FSL from using the NLFC software other than internally for the licensee's own business operations. The licenses also prohibited Cabrini and FSL from distributing copies of the NLFC software or allowing third parties to make copies.[2] Cabrini and FSL thus both agreed to keep

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[2] Relevant terms of the Cabrini license include the following:

> 6.2.2. PURCHASER agrees not to copy the COMPUTER SOFTWARE covered by this Agreement in any manner except as reasonably necessary for license to use and in the normal backup procedures, without the express written consent of [NLFC].
>
> 6.2.7. [NLFC] shall give the PURCHASER copies of the source code corresponding to all LICENSED SOFTWARE including, but not limited to, each application, compiler, file structure, data base handler and file layout corresponding thereto. PURCHASER may use the foregoing for purposes of modification, maintenance, enhancement and integration by PURCHASER. . . . PURCHASER shall not disclose or transfer any COMPUTER SOFTWARE source code to third parties.

the NLFC software confidential and not disclose it to third parties. Cabrini agreed not to copy the software except as specified in its license, and FSL's contractual right to secure maintenance from a third party did not grant it or anyone else legal authority to make copies of the NLFC software or to maintain a copy on that third party's computer. Thus, neither Cabrini nor FSL had authority to give Devcom permission to do what it did.

D. The court of appeals improperly refused to consider NLFC's rule 12(n) statement.

The court of appeals erred in affirming the district court's ruling that NLFC had not filed a proper statement of contested facts in compliance with Local Rule 12(n) of the Northern District of Illinois Local Rules. That rule requires that any party that opposes a motion for summary judgment must file a statement listing those material facts which are in dispute. N.D. Ill. Local R. 12(n). The district court concluded that NLFC's rule 12(n) statement failed to controvert Devcom's rule 12(m) statement listing of undisputed facts. The court asserted that NLFC's rule 12 statement offered conclusory allegations and misleading characterizations of the record.

Relevant terms of the FSL license include the following:

> 7. FSL agrees that [the Software] provided consists of valuable trade secrets of [NLFC], and FSL agrees to keep all [NLFC] Software and documentation confidential and not make any disclosures to third parties, with the exception of disclosures made pursuant to FSL's rights under this letter agreement.

NLFC's rule 12(n) statement did not contain mere conclusory allegations, and it made clear reference to deposition testimony which created an issue of fact for trial. NLFC's rule 12(n) statement said:

> Devcom copied and/or reproduced NLFC's software, in violation of NLFC's rights under Title 17 of the United States Code. Devcom's employee, Jon Kristofferson, Devcom's Director of Software Development, during his deposition of April 22, 1993 admitted that Devcom copied NLFC's software: *see* Exhibit A, Kristofferson Deposition, p. 121, lines 2-13, and Deposition Exhibit 1. Also, see Exhibit B hereto.

Incredibly, the district court and court of appeals held NLFC's response insufficient, and they deemed Devcom's statement of material facts as being admitted. The court of appeals' decision to uphold the district court's ruling disregarding NLFC's rule 12(n) statement was erroneous, because NLFC's statement complied with rule 12(n).

E. The district court erred in deeming as admitted statements in Devcom's rule 12(m) statement.

If NLFC's rule 12(n) statement could be said not to be in technical compliance with the local rule requirement, the court of appeals erred in affirming the district court's decision to deem admitted the facts set forth in Devcom's rule 12(m) statement. Deeming admitted the allegations in a rule 12(m) statement conflicts with the requirements of rule 56 of the Federal Rules of Civil Procedure. Thus, to the extent that Local Rule 12 allows such a practice, the district court has gone beyond its rule-making authority.

The district courts have authority to promulgate local rules governing practice in their courts. *See* 28 U.S.C. § 2071 (West 1995); Fed. R. Civ. P. 83. However, that rule-making authority is limited. The courts' local rules must be consistent with the Federal Rules of Civil Procedure and with all Acts of Congress. *Id.* If a local rule is inconsistent with the rules of practice which this Court has prescribed, this Court has inherent supervisory power to invalidate those rules. *Frazier v. Heebe*, 482 U.S. 641, 645 (1987).

Rule 56 says that summary judgment is proper "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any" show that there is no genuine issue of material fact and that the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c). The "admissions" to which rule 56 refers are admissions made in response to rule 36 of the Federal Rules. Local rule 12(m) provides for admissions other than those made in accordance with the procedures in rule 36 for requesting admissions of fact and responding to such requests.

The district court's application of its local rule 12(m) allows the district courts to grant summary judgment by default. It allows the district court to grant summary judgment based on the bare allegations contained in a rule 12(m) statement, regardless of whether the record contains pleadings, depositions, interrogatory answers, admissions, or affidavits which show that no genuine issue of material fact exists. Thus, the rule is inconsistent with rule 56.

A local rule that allows a court to grant summary judgment as a result of the opposing party's failure to respond to a motion for summary judgment is inconsistent

with rule 56 and therefore improper. *See, e.g., Henry v. Gill Indus., Inc.*, 983 F.2d 943, 949 (9th Cir. 1993) (local rule allowing summary judgment when no opposition filed is inconsistent with rule 56 and violates rule 83); *Hibernia Nat'l Bank v. Administracion Central Sociedad Anonima*, 776 F.2d 1277, 1279 (5th Cir. 1985) (a local rule cannot permit court to grant a summary judgment merely because there is no opposition). The court of appeals' action in allowing the district court to deem a fact admitted because it is listed in a rule 12(m) statement is inconsistent with rule 56 and thus inconsistent with rule 83 and section 2071 of the Code of Judicial Procedure. The court of appeals, therefore, erred to the extent it affirmed the district court's ruling based on the allegations contained in Devcom's rule 12(m) statement.

CONCLUSION

Because of the broad implications that the court of appeals' reported decision has for the software industry, this Court should grant this petition and correct the court of appeals' decision.

Respectfully submitted,

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